Kraftco Corporation
1974 Annual Report

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Annual Meeting

The Annual Meeting of Stockholders of Kraftco Corporation will be held Thursday, April 17, 1975, at 2 p.m. at The First National Center, One First National Plaza, Chicago, Illinois.

SEC Form 10-K

Kraftco's Annual Report on Form 10-K filed with the Securities and Exchange Commission, is available upon request and may be obtained by writing the Office of the Secretary of the Corporation:

Joseph L. Caliri
Kraftco Corporation
Kraftco Court
Glenview, Illinois 60025

Kraftco Corporation **1974 Annual Report**

Financial Highlights	**1974**	1973
Sales	**$4,471,427,000**	$3,601,535,000
Earnings	**$ 94,627,000**	$ 103,428,000
Per Share	**$3.41**	$3.70
Per Dollar of Sales	**2.11%**	2.87%
All Taxes on Income	**$ 82,222,000**	$ 94,443,000*
Per Share	**$2.96**	$3.38*
Dividends to Stockholders	**$ 52,161,000**	$ 49,331,000
Per Share	**$1.882**	$1.768
Capital Expenditures	**$ 94,164,000**	$ 70,374,000
Depreciation	**$ 49,150,000**	$ 46,690,000
Stockholders' Equity	**$ 850,011,000**	$ 807,664,000
Number of Stockholders	**66,320**	67,556

*1973 has been restated to reflect state and local taxes on income as part of provision for taxes on income ($8,647,000 or 31¢ per share).

"The glory of the farmer is that, in the division of labors, it is his part to create. All trade rests at last on his primitive activity. He stands close to Nature; he obtains from the earth the bread and the meat. The food which was not, he causes to be. The first farmer was the first man . . ."

—Ralph Waldo Emerson

We feel this closeness to the land also extends to our Company. Although we do not produce raw agricultural products, we are a converter and marketer for the farmer, whatever his crops may be.

To Our Stockholders:

The year 1974 was a significant and turbulent one for your Company, as it was for the nation and the world. Kraftco's annual worldwide sales surpassed the $4 billion mark for the first time. As might be expected, however, a significant portion of the sales increase over 1973 can be attributed to the continuing inflation which has distorted the entire economy.

Although Kraftco's earnings in 1974 were the second highest in its history, any reduction in profitability is disappointing. Our earnings decline in 1974 can be explained in two words: cheese and inflation. As previously reported, Kraftco took a writedown of $15 million on its cheese inventory and reduced margins in 1974. The events leading to this adjustment are described in the section, "Focus on Issues 1974".

It is important to understand that the relationship of mutual trust which exists between this Company and its millions of customers was an intrinsic part of the inventory situation. Kraftco will not diminish the quality of any product it sells. We believe consumers must never be compromised by receiving a product—any product—which does not fully meet the high standards they have learned to expect from us. Our cheese lines are among the broadest in the food industry. Between the time new cheese is manufactured from milk and the time it reaches the supermarket, many months are required for aging, packaging and distribution. These stages are vital to the quality of the final product, and we will not skimp on them in any way. Any shortening of the time required would result in either inadequate supplies of quality, aged natural cheese or a lowering of our own standards. We have demonstrated our commitment to quality in the past, and will continue to do so. Our relationship with the consumer simply is not negotiable.

The second factor in our earnings result was inflation. In 1974, $230 million of additional borrowing was required for Kraftco to sell nearly the same volume of products on a worldwide basis as in the previous year.

Virtually all of these additional funds had to be borrowed at interest rates substantially higher than those we paid in 1973. In April, your Company sold $100 million of 30-year debentures. In this respect, Kraftco holds a Triple A rating from both Moody's and Standard & Poor's. Kraftco is one of just seven industrial companies to have this highest rating. Nevertheless, our net interest expense for 1974 exceeded 1973 by $23 million, about 44¢ per share.

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Sound corporate health requires adequate profits over a sustained period. The profitability of companies in the private sector is equally important to the continuing economic health of the nation. To Kraftco, profit provides the ability to replace worn-out or obsolete facilities; to meet growing consumer needs; to create jobs and assure economic security for our employees and our suppliers; to provide a dependable market for raw food products from the farm; to pay taxes; to contribute to the general welfare; and, of course, to you, our stockholders, profit means a return on your investment in the form of dividends.

Measured in total dollars, Kraftco earned $94,627,000 in 1974. Relatively speaking, however, we earned just 2.1 percent of sales, which compares to the average for food processors of 2.68 percent reported by Grocery Manufacturers of America for the first nine months of 1974, but still below the national average of 5.67 percent for all manufacturing industry. Improved profitability, therefore, must be a primary objective for Kraftco and the food industry in the years ahead.

Kraftco is a strong and resilient corporation, able to withstand fluctuations in the economy and in the markets it serves. But continued inflationary pressures, caused largely by a government fiscal policy which practices deficit spending and which releases more and more dollars to compete for a relatively fixed supply of products and services, can only weaken and undermine all that we in the private sector hope to achieve.

Government regulations require increasing management attention. Notwithstanding the broad range of directives already in effect, new laws, rules, reports, standards and guidelines affecting almost every phase of business continue to be proposed. An objective cost/benefit review of the constant growth of government regulation is needed.

Kraftco will continue its support of balanced government budgets and fiscal responsibility. Along with relief from price and wage controls, these improvements will permit our free market system to function effectively and to achieve the profitability the economy must have.

Last fall, the nations gathered in Rome for a world food conference. Kraftco participated, and we believe progress was made toward overcoming some of the obstacles to providing ample food for all human beings. We are convinced those problems can, and will, be solved. Since 1950, the world's population has increased by 50 percent, but during the same period food production has doubled. The world can be fed from fewer acres of land than are presently being used, simply by applying our existing technology. Despite very serious shortages of resources in certain regions of the world, man's capacity to feed the world's population need not be in doubt, if only the necessary amounts of capital, technology and determination are made available. Nevertheless, the challenges are severe, and it will be some years before we again have the security of stored food surpluses. Meanwhile, Kraftco will be an increasingly active partner in the campaign for world food sufficiency.

Just as we must be realistic about the seriousness of the global economic situation, even so we must not underestimate man's problem-solving talents. Gloomy forecasts are based on past events, but our greatest progress has come from man's ability to do things for the first time, to overcome adversity and to move on to greater accomplishments.

Two changes in your Board took place in 1974. We note with regret the death, on July 15, of Barry T. Leithead, a devoted and capable Director for 10 years.

On December 5, George G. Zipf, Chairman and President of The Babcock & Wilcox Company, was elected to the Board of Directors.

One change in the Executive's staff should be mentioned in this letter. Kenneth B. Fishpaw, Senior Vice President, died on January 18, 1975. For over 33 years he served the Corporation with distinction in a number of vital capacities in the financial area.

Finally, on behalf of the Board of Directors and our loyal employees, we thank you, our investors, for your continued support.

William O. Beers

William O. Beers
Chairman of the Board and
Chief Executive Officer

A. W. Woelfle

Arthur W. Woelfle
President and
Chief Operating Officer

March 7, 1975

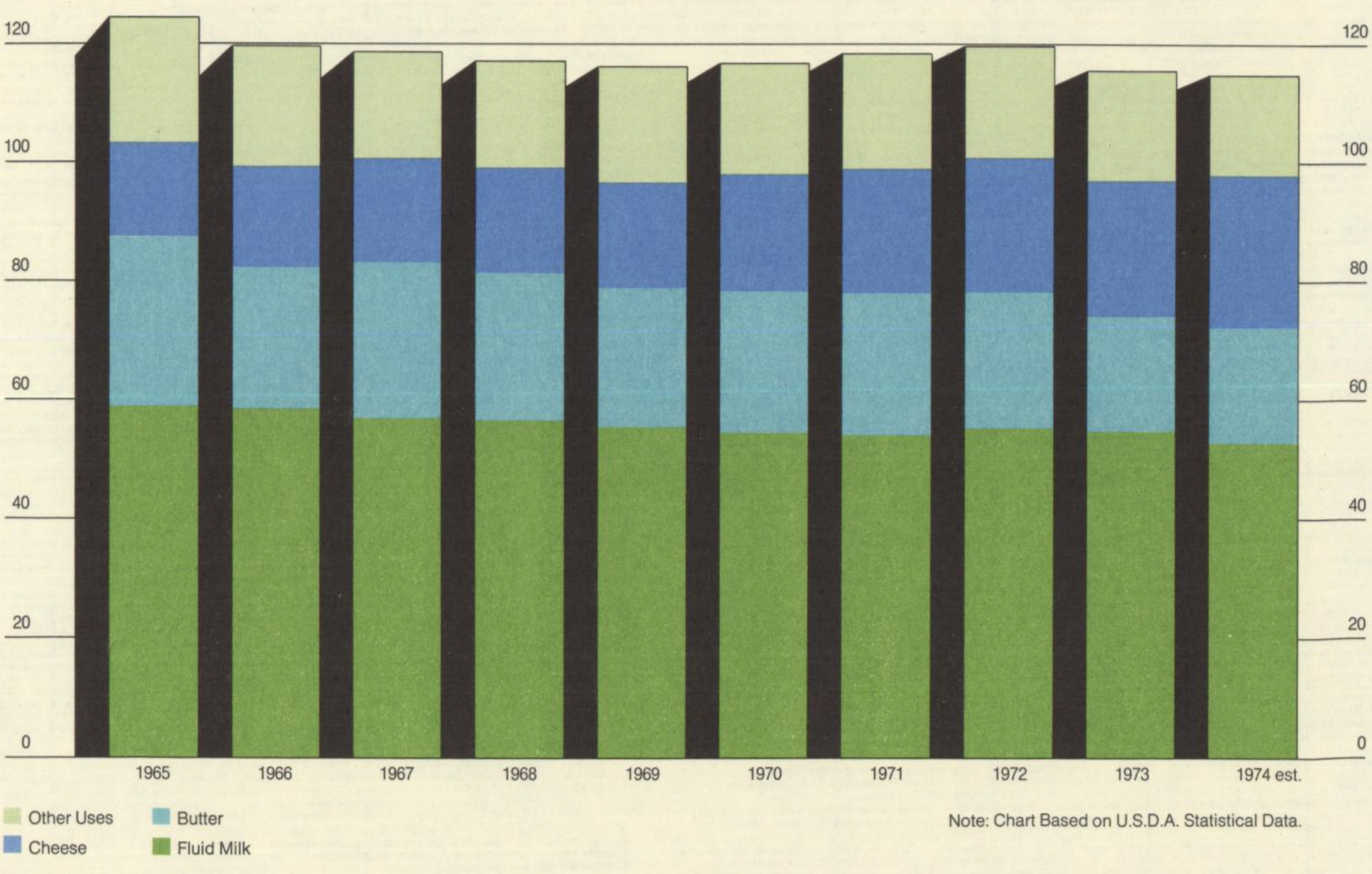
Cheese and Milk

During the last half of 1973 and the early part of 1974, a shortage of cheddar cheese existed in the United States. Subsequently, however, two particular factors helped to alleviate this situation. Although milk production for 1974 continued to decrease, higher wholesale cheese prices in late 1973 and early 1974 encouraged a diversion of milk from butter and milk powder production to cheese production. In addition, the supply of cheese was increased by the temporary easing of restrictions which allowed 100 million pounds of cheddar to be imported from Europe and New Zealand during the first quarter of 1974.

Once again we saw the basic law of supply and demand in operation. As cheese supplies in the United States increased, wholesale prices declined from an all-time high Wisconsin Cheese Exchange price of 85¼¢ per pound for 40-pound blocks of cheddar cheese on February 22, 1974, to 68¢ on May 31, 1974. Kraftco's selling prices were immediately adjusted downward as the wholesale price declined.

Historically, Kraftco maintains an inventory of cheese based on anticipated usage to satisfy marketing plans. Substantial amounts of the types of cheese which must be aged are accumulated during the months preceding our deliveries to customers. An uninterrupted supply must be available to meet consumer demand for our traditionally high-quality cheese products. As the wholesale price of cheese declined, reduced selling prices and inventory values affected earnings by 70¢ per share, which had considerable impact upon first half results. During the third quarter of 1974, wholesale cheese prices increased once more. Consequently, approximately 15¢ per share of the inventory adjustment was not required and could be restored to earnings.

The high cost of raw materials continues into 1975. On January 4, 1975, the United States Department of Agriculture announced new price support levels effective through March 31, 1976. The support level of milk for



Milk Production and Utilization, United States 1965-1974

In Billions of Pounds

Note: Chart Based on U.S.D.A. Statistical Data.

manufacturing was increased 10.2 percent, from $6.57 to $7.24 per hundredweight. The new support price of cheddar cheese represented an increase of 9.2 percent, from 70¾¢ to 77¼¢ per pound. The U.S.D.A. supports farm prices by purchasing cheese, butter and nonfat dry milk through the Commodity Credit Corporation, generally for distribution through school lunch programs and similar activities.

United States milk production was down in 1974, continuing the trend of the past five years. The drought-reduced feed grain and soybean crops of 1974 are expected to adversely affect milk production in 1975 since high feed costs may cause dairy farmers to limit grain feeding, which would result in a moderate decline in total milk production for the year.

Despite the prospect of continued high prices, the long-range outlook for cheese consumption is favorable. Per capita consumption has increased significantly in recent years in the United States and elsewhere (see chart). Consumers are increasingly turning to cheese, both for itself as a preferred food, and as an ingredient in other foods. This is partly due to meaningful programs conducted by the Kraft Foods Division over the past 50 years in educating consumers about the nutritional value of cheese.

It may also be noted that nutrition-conscious consumers are placing greater emphasis in their food buying habits on protein and nonfat milk solids. Sealtest Foods Division's success in 1974 was due, among other factors, to management's ability to position the *Light n' Lively* lines of lowfat dairy products as outstanding values in this respect.

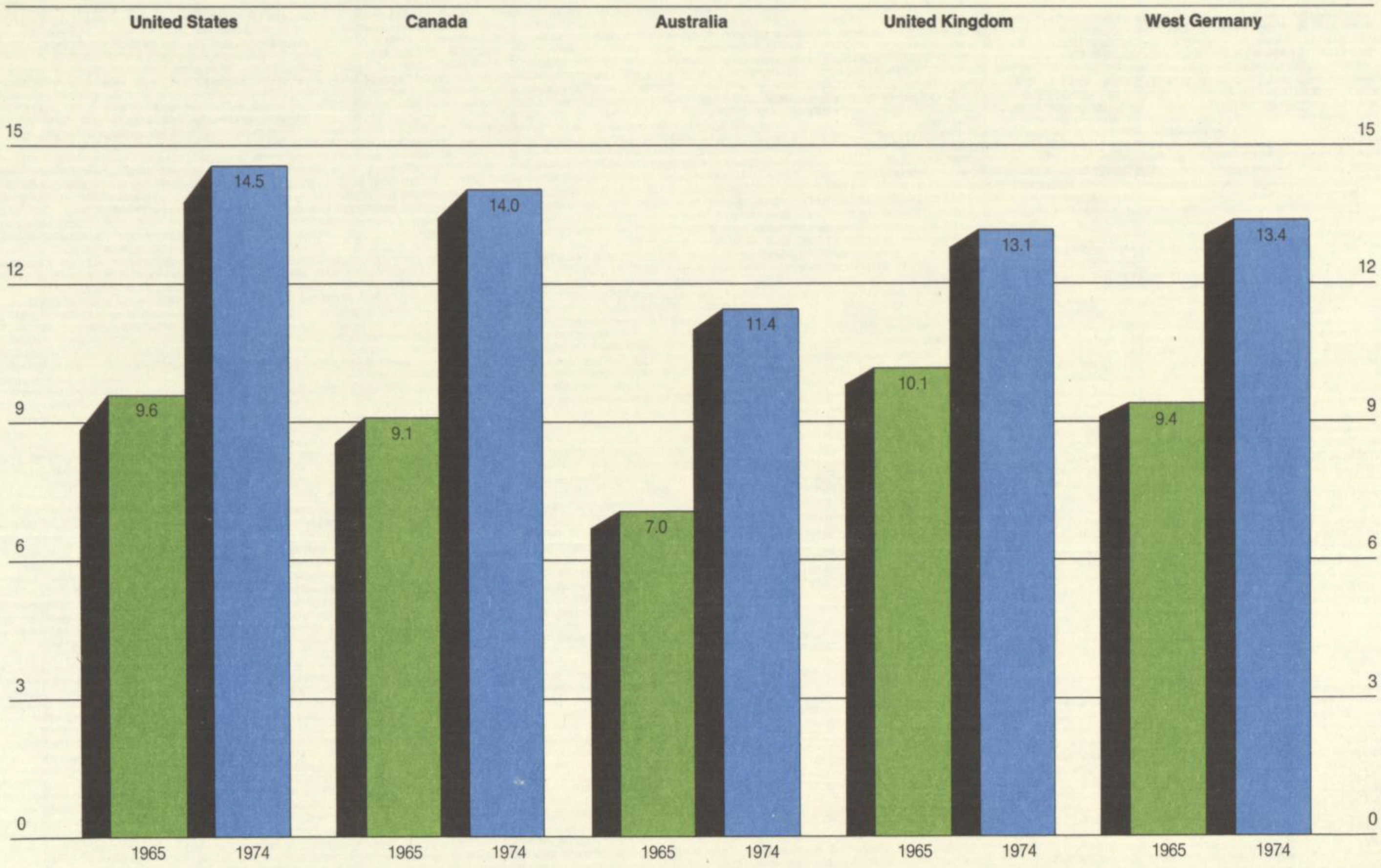
Production Costs and Productivity

The prices that Kraftco receives for its products are reflections of many costs, including those of raw agricultural materials, labor, energy, packaging supplies, capital investments and others.

The prices paid for raw agricultural materials have increased rapidly in recent years. Milk is a prime example.

Per Capita Consumption of Cheese

In Pounds



Note: Chart Based on U.S.D.A. Statistical Data. 1974 Figures Estimated

In 1970, the average price, at the farm level, as reported by the United States Department of Agriculture, was $5.71 per hundredweight. In 1971, the average price advanced to $5.87; in 1972 to $6.07; in 1973 to $7.14 and last year to $8.30, reaching a record high of $8.94 in March 1974, an increase of 56.6 percent over the 1970 average.

Material cost increases for packaging supplies have been even more dramatic. Increases between January 1, 1974 and December 31, 1974, for major carton items, ranged from 19 to 32 percent, aluminum foil increased more than 44 percent, polyethylene film costs increased almost 70 percent and the cost of various glass containers for jellies, preserves, juices and salad products, rose an average of 18 percent.

The increased price of sugar, a major news item in 1974, affected the production costs of ice cream and ice milk, candy, jellies, preserves and even *Koogle*, the new peanut spread.

These are not isolated examples. The problem is pervasive, extending even to the cost of money itself. The need for working capital and Kraftco's capital expenditure program, which is absolutely essential in maintaining the Company's productive capacity and efficiency, require substantial borrowings. During 1974, Kraftco's net interest costs alone increased by $23 million over 1973.

The economic climate of the Seventies has emphasized the importance of improved productivity in all operations. Kraftco's program of replacing or upgrading facilities continued in all divisions during 1974.

The new Swiss cheese plant in Middlebury, Vt., is scheduled to open in May. The plant is situated in a major market area where a good supply of milk is available. The decision to locate the plant in this area was based partly on the continuing trend toward concentration of milk production in areas more suited to dairying by virtue of their topography, soil and other conditions. Farmers in regions such as New England and the Upper Midwest raise their own hay and forage crops as before. Now to a greater degree, however, they purchase corn, soybean meal and other feed supplements from areas which are better suited for intensive single-crop agriculture, thus utilizing the natural advantages of both regions.

Another kind of improvement in productivity was realized through a realignment of the Kraft Foods Division sales force. A number of changes were put into effect during 1974 which were based on a detailed analysis of each sales representative's assignments. The program has resulted in an average improvement of 10 percent for the entire group, with sales tonnage per representative increased by 25 thousand pounds per month.

Energy Conservation

The year 1974 dramatically increased public awareness of the energy crisis. In this period of growing concern, Kraftco intensified its programs to reduce energy consumption, both as a necessary measure in the national interest and as a means of improving the efficiency of its own operations.

In 1973, the Corporation stated that one major corporate objective is to market quality products and services profitably while employing procedures and practices which conserve natural resources, protect the environment and increase productivity. Under that policy, formal programs to conserve energy were instituted throughout the Company's operations. These conservation activities included: the assignment of energy-saving responsibilities at operating levels; the establishment of specific conservation goals in operations; the regular audit of program results and continuing emphasis of the programs throughout the Company.

During 1974, a range of projects adapted to the need for energy conservation in offices, processing plants, distribution centers and automotive fleets was undertaken.

Although costs incurred by Kraftco for fuel, electricity and other forms of energy generally increased in 1974, significant economies were achieved in energy usage. Savings in energy used per unit of output, in United States manufacturing facilities, ranged from 3 to 15 percent as a result of these programs.

In the Corporation's automotive operations, vehicle maintenance and operating techniques were improved, compact automobiles offering greater mileage per gallon were introduced, car pooling was encouraged and fleet routing adjustments were made. For the year, the Corporation achieved a reduction of almost 8 percent in automobile mileage compared to the prior year.

Edible Oils

Fats and oils are essential foods, indispensible to the human diet. Kraftco is a major user of fats and oils as ingredients in hundreds of products, including margarine, salad dressings, confections and many more. Kraftco is a leader, too, in adapting the sophisticated technology needed to process crude vegetable oil to meet the specific requirements of a variety of different food products.

HumKo Products (a part of the Kra-Pak Division) processes most of the oils used in Kraftco products. Soybeans represent the single most important source of oil, but in addition, HumKo refines oil derived from corn, safflower seed and cottonseed. Palm oil, produced in tropical regions, is expected to come into common use, especially for cooking purposes.

Soybeans, corn and cotton and their agricultural by-products are, of course, major United States exports, and as such, contribute favorably to this country's balance of payments. Oil supplies for consumption in the United States are currently adequate and are expected to remain so. Although troubled by early flooding, midsummer droughts and early frosts, the 1974 soybean crop was the second largest on record.

Nevertheless, soybean prices have increased drastically. As recently as January 1973, the mill price of crude soybean oil, purchased by refiners such as HumKo, was 10¢ per pound (f.o.b. Decatur, Illinois). The price rose steadily, to 25½¢ per pound on April 10, 1974. On September 30, 1974, it reached an all-time high of 50½¢ per pound, an increase of 405 percent, before easing somewhat in late 1974.

Research and Development

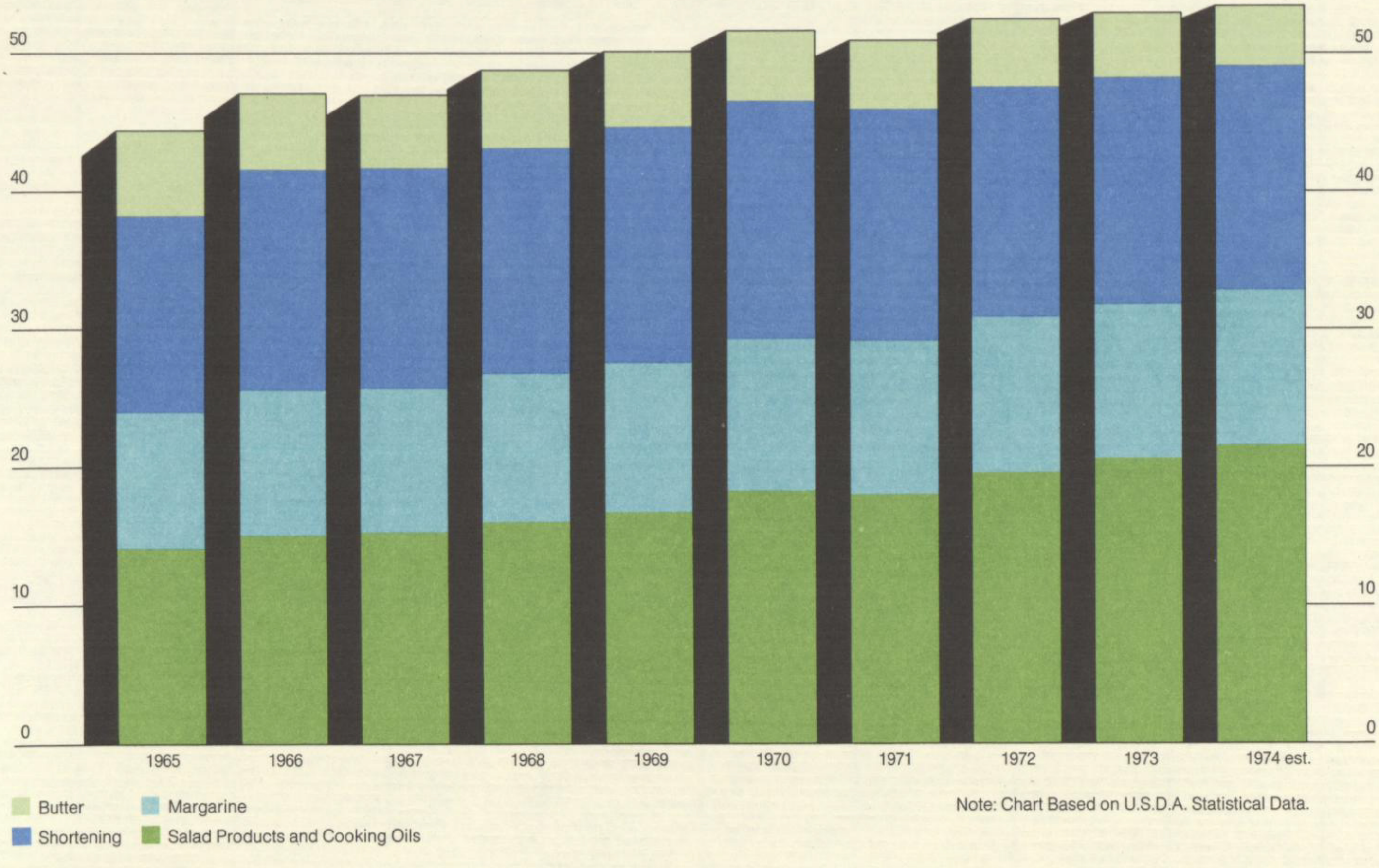
The chief long-range goal of research and development at Kraftco is to find new or improved products and processes. In addition, R & D personnel are directly involved in providing solutions to short-term problems facing the operating divisions.

Raw material shortages and escalating costs have increased R & D's role in searching out alternative ingredients and making technical evaluations of their acceptability. When studying changes in product composition or packaging, both Kraftco's consumer and research kitchens continue to represent the consumer. The suitability of proposed substitutes is rigorously checked in the laboratory in close cooperation with production and quality control departments to determine the effect of such alternates on products as they move from production into distribution and throughout shelf life. When new ingredients are used, R & D develops suitable specifications to assure compliance with both Kraftco and government standards.

In 1974, a modified whey product, Special *Krakreme*, was introduced by Kraft as a partial replacement for sucrose in commercial baking. *Krakreme* is valuable as a lower priced substitute for sugar, and in addition it utilizes valuable nutrients available in a major by-product of dairy processing.

Per Capita Consumption of Fats & Oils in Products/U.S.

In Pounds



Note: Chart Based on U.S.D.A. Statistical Data.

In the effort to offset inflationary pressures through improved productivity, R & D works with engineers and other highly-skilled technical personnel within the divisions to streamline processing methods. Continuous processing techniques help reduce labor and energy costs, and in some cases, result in greater uniformity of the finished product.

This problem-solving type of activity does not diminish the long-term responsibility of R & D to develop the products and processes which are vital to Kraftco's future. Meanwhile, the daily contact between research scientists and production specialists can and does lead to insights as to how existing products may be improved or how entirely new products may be developed. The introduction in 1974 of *Kraft* Imitation Mayonnaise, with only half the fat and calories of the conventional product and significantly lower product cost, is an example of how R & D helps meet special consumer preferences.

New Products, Packaging, Marketing & Advertising

Kraftco's operating divisions continued to expand their product lines in 1974. In each case, the new or improved product was developed in response to proven consumer demand. Introductions of particular interest during 1974 include the following: a line of refrigerated, sour cream-based salad dressings developed by R & D for Breakstone Sugar Creek Foods, which is now in test market; Kraft's Imitation Mayonnaise; *Breyers* All Natural Yogurt in 10 flavors from Sealtest Foods; and HumKo Products' vegetable spray coating for pans, soon to be distributed under trademarks *E-Z Chef* and *Richtex.*

Nutritional information is being added to Kraftco labels as new labels are printed. Dating information is provided by the phrase, "Best when purchased before (date)".

Universal Product Code (UPC) labeling is being adopted by many food processors. The system is designed to reduce costs of record-keeping and inventory control in retail stores. The UPC symbol has now been applied to hundreds of Kraftco products.

Two years ago, Kraftco reported a reorganization of the Sealtest Foods Division which included the closing of operations in certain unprofitable markets and the consolidation of others. As a result of this difficult transition, Sealtest Foods is stronger and more profitable than it has been for some years. A creative program of marketing ice cream and frozen desserts contributed significantly to the improvement. *Breyers* All Natural Ice Cream (the top of the line), *Sealtest* Ice Cream and *Light n' Lively,* a superior quality ice milk, were presented to the trade as a total frozen dessert program, with each brand designed for a particular consumer need.

The Kraft Foods Division continues to present educational "Good Food and Good Food Ideas" commercials via outstanding television specials. "The Country Music Awards Show", which reached more households last October than the World Series, drew 30 thousand requests for recipes within the first 10 days. Recipes were also distributed through stores and to the Kraft mailing list of one million homes. And Kraft commercials themselves continue to win awards for their consumer service content and for the quality of their presentation.

A notable addition to Kraftco advertising programs is, "The Ossie Davis and Ruby Dee Story Hour". This radio series carried on the National Black Network, presents a rich mixture of black poetry, music and folklore. Outstanding guests have included Harry Belafonte, Senator Edward Brooke, soprano Leontyne Price and others.

A note on Aluminum Specialty Company, a Kraftco subsidiary acquired in February of 1974:

The Housewares Division expanded its products to full-line status with the addition of heavy-gauge gourmet cookware. The product lines are sold under the *Chilton* brand name through national variety and chain stores, leading retailers and catalog houses. Distribution of *Chilton* cookware through supermarkets is being further strengthened to take advantage of the current trend toward total merchandising.

The Toy Division, which produces and markets a traditional line of toys with year-round sales appeal, and The Contract Division, which supplies aluminum and plastic components to other manufacturers, both experienced substantial growth during 1974.

International

In mid-1974, Kraftco's international food processing and distribution operations were established as a new division: Kraftco International.

During the last five years, international sales have grown more than twice as fast as sales within the United States and Canada. In 1974, international sales were about 15 percent of the Company's worldwide total.

Despite this growth, various factors combined in 1974 to affect profits. International earnings fell below the 1973 record by about 33¢ per share. Approximately one-half of this decline resulted from currency translation losses in 1974 compared to translation gains in 1973.

Kraftco makes every logical effort to establish overseas operations in ways which are acceptable to the host nations, thereby sharing in both the economic advances and setbacks experienced in those countries. Basic problems facing America are troubling other nations, too. Inflation is perhaps the most serious. West Germany was the only country in which Kraftco International has operations that experienced a lower inflation rate than the United States.

Price controls are a fact of life in every country where Kraftco International conducts business, again with the exception of West Germany. The year just past demonstrated once more that government price controls are not effective in dealing with inflation. Experience shows that controls which prevent or limit the pass-through of cost increases, and require waiting periods before authorized changes can go into effect, contribute to market dislocations, inequities and dangerous increases of inflationary pressures.

Energy is even less abundant and more expensive in many other countries than in the United States, and this, too, was a negative factor in the Company's international results.

Construction of the multi-product processing plant and distribution center at Namur, Belgium, is proceeding as scheduled. Manufacturing at Namur will begin in mid-1975, and the facility will be fully operational about one year later. When that happens, the Namur facility will produce a variety of products for distribution in the member nations of the European Economic Community.

Community Affairs and Affirmative Action

Kraftco continued its support of numerous programs at national and local levels for education, art and other cultural activities, health, youth and civic causes. Long-standing support of research into coronary ailments was continued, new grants for cancer facilities were authorized and additional aid to culture-related programs was approved. Junior Achievement projects were assisted both financially and by participation of Company personnel.

The Company-wide program of Affirmative Action in employment increased the number of minorities and women in all upper-level job categories. As required by new regulations, this program was expanded in 1974 to include a plan for hiring the handicapped. To further advance the involvement of local Kraftco operations in minority recruitment and economic development, New Orleans became the fourth city in Kraftco's "Plant City Program" which already includes Atlanta, Memphis and Philadelphia.

The economic involvement of the Company with minority businesses continues to increase in areas such as banking, purchasing, construction, marketing, advertising and insurance. For example, since 1968, Kraftco's relationship with minority-owned banks has grown to an annual participation of $20 million in tax deposits and includes 16 banks. In 1974, the banking program was expanded. Now, a consortium of 17 minority banks is participating in a $3 million line of credit recently established by the Company.

The Company maintains a continuing program which provides industry-related educational opportunities for minority students in the fields of food technology and nutrition. In this regard, Kraftco sponsored the attendance of student and faculty representatives from four black colleges at the 1974 annual convention of The Institute of Food Technologists held in New Orleans.

Additionally, on December 18, 1974, the Kraftco Food Science Laboratory at the predominantly-black Bishop College in Dallas, Texas, was dedicated. The laboratory, which was converted from a classroom in the Life Sciences Department, resulted from more than a year of coordinated effort by the college and Kraftco. In addition to funds, Kraftco provided design and engineering expertise, supervised the installation work and was active in introducing other business and community leaders to the project.

Management Changes

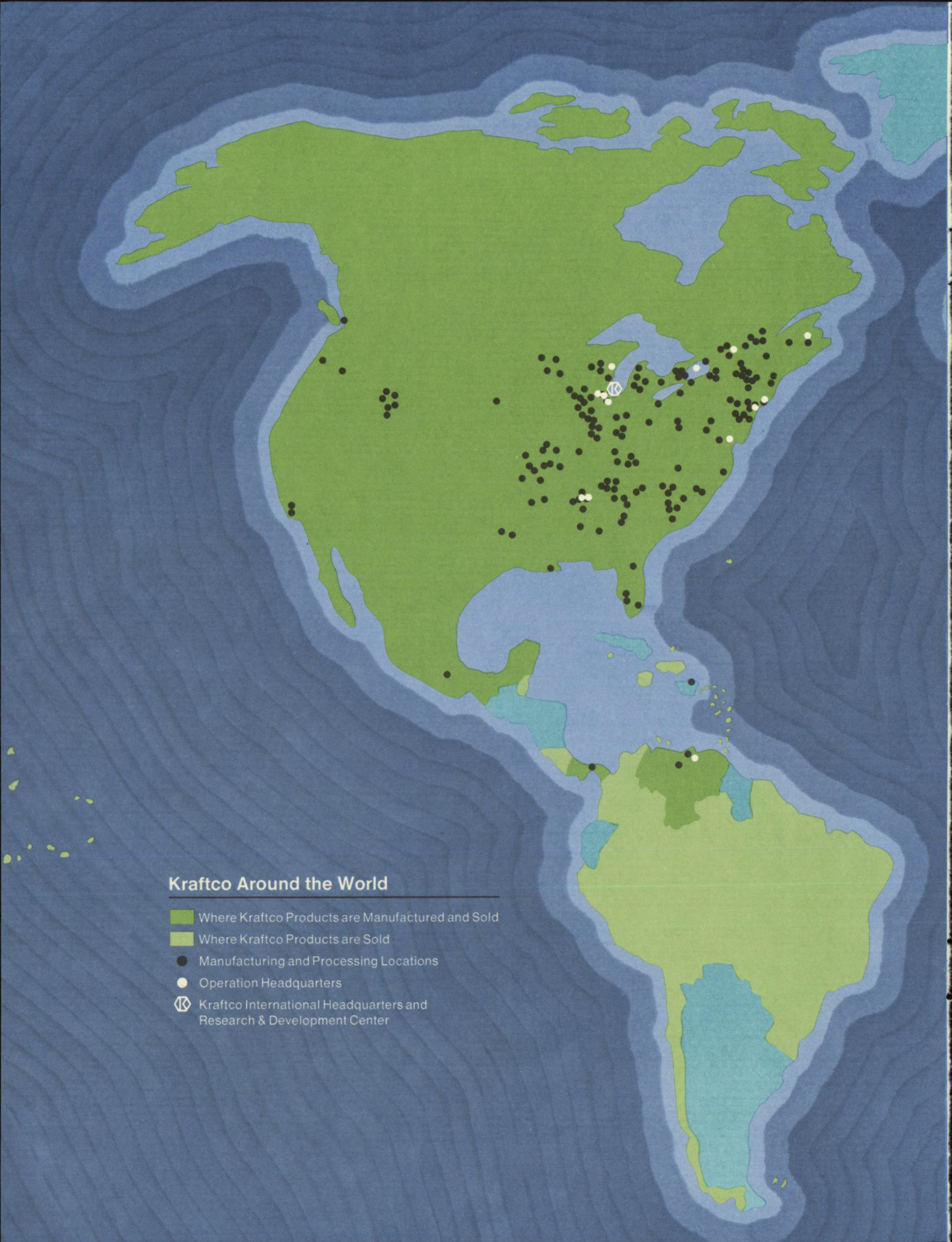
In 1974, Kraftco continued to improve its organization. The Company strives to strengthen its management staff and its capabilities through training, education and promotion to positions of greater responsibility and opportunity.

A number of key appointments in the financial department were made during the year. Thomas J. McHugh and William E. Reidy were elected Vice President—Taxes and Vice President—Systems Services, respectively. Roger H. Willis was elected Vice President and Comptroller. Together with William B. Jordan, Vice President and Treasurer, these officers report directly to M. Joseph Lambert, Senior Vice President and Chief Financial Officer. Alexander G. Moon was elected Deputy Comptroller.

With the formation of Kraftco International, H. Medford Connelly was elected a Vice President of the Corporation and President of the Division.

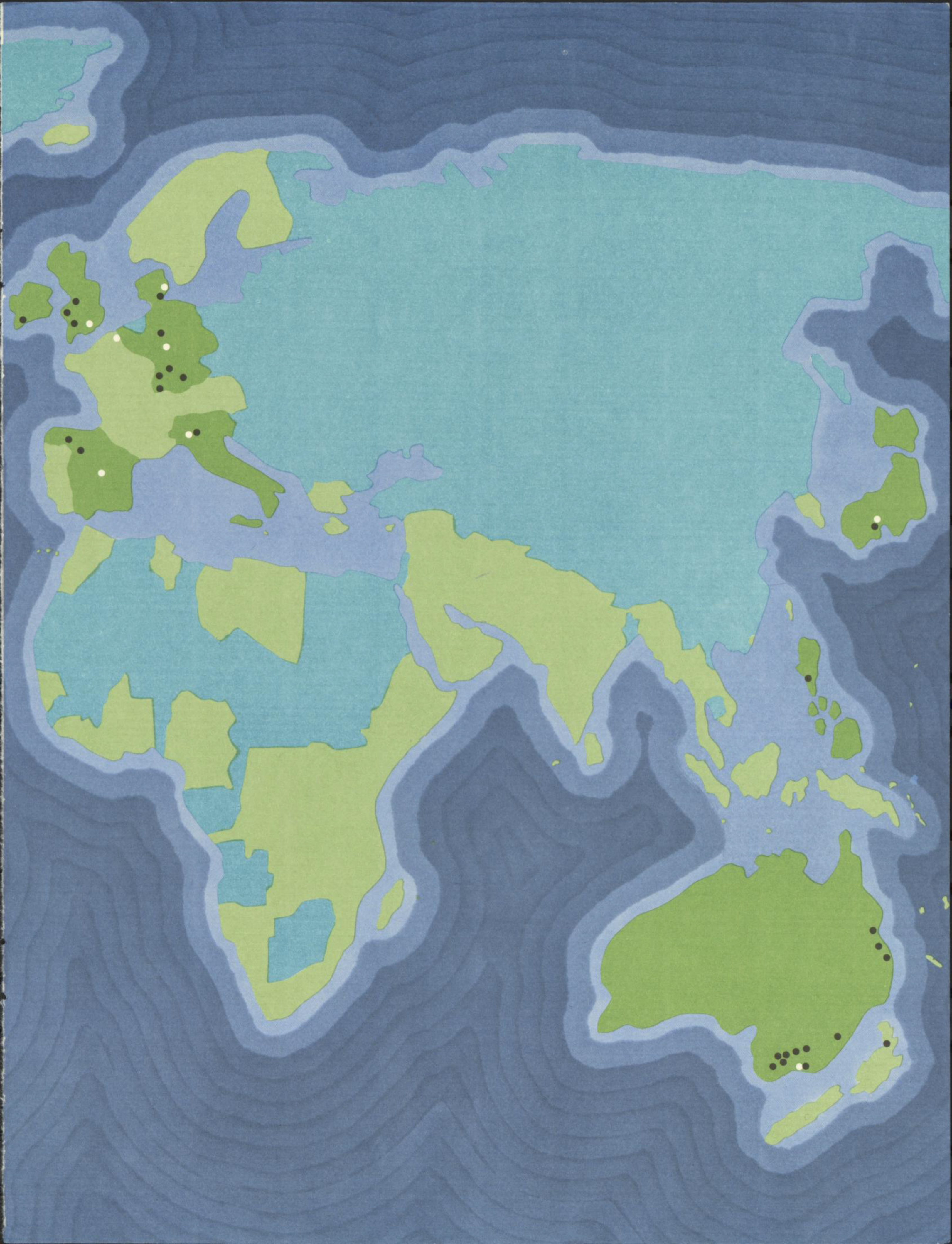
Thomas E. Neves was elected President of Breakstone Sugar Creek Foods Division. He succeeds Herbert F. Marston, who retired on September 1, after 36 years of outstanding service.

John F. White, Director of Research and Development, was elected Vice President of the Corporation.



Kraftco Around the World

🟩 Where Kraftco Products are Manufactured and Sold
🟩 Where Kraftco Products are Sold
● Manufacturing and Processing Locations
○ Operation Headquarters
Kraftco International Headquarters and Research & Development Center



Analysis of Operations
(See summary page 24)

Sales

Kraftco sales during 1974 exceeded $4 billion for the first time, marking the twentieth consecutive year in which sales reached a new high. Total worldwide sales were $4,471,427,000 in 1974 and $3,601,535,000 in 1973, representing increases of 24.2 percent and 12.7 percent, respectively, over the preceding years. Included in these sales results are decreases of $68,000 in 1974 and increases of $54,476,000 in 1973 due to translations of sales of Canadian and international subsidiaries at the floating rates of exchange.

Sales outside the United States and Canada were $682,463,000 in 1974, an increase of 19.4 percent over 1973 sales of $571,456,000 which increased 23.9 percent over 1972.

Although a record volume of product was sold in 1974, 1973 and 1972, the increases in sales were due primarily to higher selling prices required to partially offset increases in raw agricultural materials and other costs.

As indicated in the accompanying chart, manufactured dairy products and processed food products accounted for the predominant portion of the increase in the Company's sales. Since 1968, combined sales of manufactured dairy products and processed foods have increased at an annual compound growth rate of 15.9 percent.

The Company has, particularly since 1971, closed or consolidated a number of unprofitable plants and phased-out certain products and marketing areas. This program has contributed to the percentage sales decline of fluid milk products and ice cream and frozen desserts.

Earnings

Consolidated net earnings in 1974 were $94,627,000, down 8.5 percent from the $103,428,000 achieved in 1973. Net income in 1974 was reduced $15,325,000, or 55¢ per share, due to the sharp decline in the wholesale price of cheddar cheese occurring in the first half. In immediately reflecting these market changes, Kraftco's reduced selling prices resulted in lower profit margins on its extensive line of cheese products.

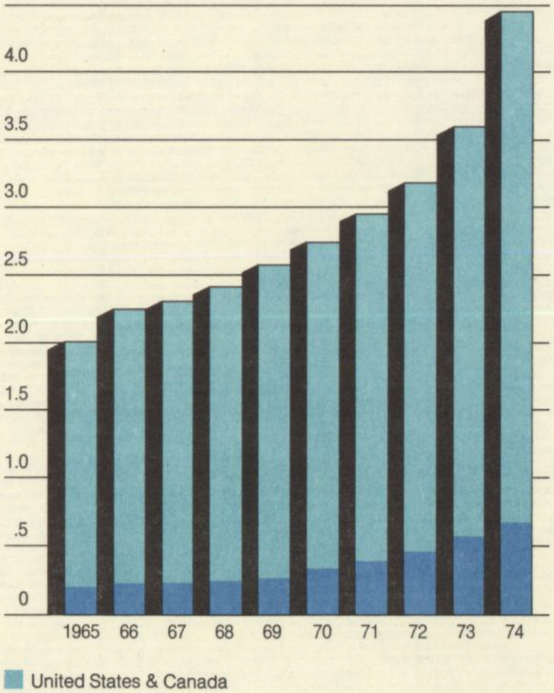
Price controls, originally established under the Federal Economic Stabilization Program in 1971 and continuing into 1974, along with shortages in domestic cheese production, adversely affected profit margins in 1973, particularly in the second half.

Earnings per share in 1974 were $3.41, down 29¢ from the $3.70 earned in 1973.

Earnings included $3,000,000, or 11¢ per share, and $2,500,000, or 9¢ per share, for 1974 and 1973, resulting from the United States investment tax credit. Translation of International and Canadian subsidiaries' financial statements resulted in a net decrease of $3,144,000 in 1974 earnings compared to a net gain of $1,464,000 in 1973.

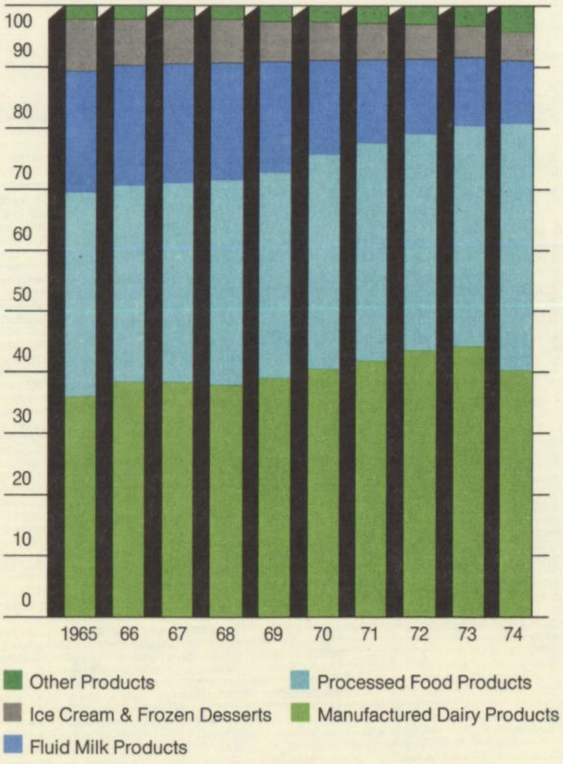
Ten Year Sales

Billions of Dollars



Ten Year Sales by Class of Products

As a Percent of Total Net Sales



Pre-tax earnings in 1974 were $176,849,000, a decrease of 10.6 percent from the $197,871,000 earned in 1973.

All taxes on income, including state and local taxes for the year, amounted to $82,222,000, a decrease of $12,221,000, or 12.9 percent, from the $94,443,000 in 1973.

Earnings of the Kraftco International Division were $15,592,000, a decrease of $9,348,000, or 33¢ per share, from the record results of $24,940,000 established in 1973. Over half of this amount is attributed to currency translations and the balance to continuing worldwide inflation, economic recession and government price controls in many countries outside the United States and Canada.

The extraordinary charge in 1972, amounting to $12,300,000 net of tax, represented known and anticipated costs in connection with the closing of certain United States milk and ice cream plants. As a result of this action, the implementation of other productivity measures and strong marketing programs, the profitability of the Sealtest Foods Division continues to show improvement.

Kraftco's industrial division, Kra-Pak, particularly the edible oil refining, chemical and flexible packaging businesses, substantially increased its earnings contribution in 1974.

Dividends

A total of $52,161,000 was paid as dividends to stockholders in 1974, an increase of $2,830,000 from the $49,331,000 paid in 1973. Dividends per share were $1.882 in 1974 and $1.768 in 1973. The following table lists dividends paid quarterly in 1974 and 1973.

	1974	1973
March	$ .442	$ .442
June	$ .48	$ .442
September	$ .48	$ .442
December	$ .48	$ .442

Stock Price Range

(New York Stock Exchange)

The following table shows the high and low prices of Kraftco's stock (Trading Symbol: KRA) by quarter for the years 1974 and 1973.

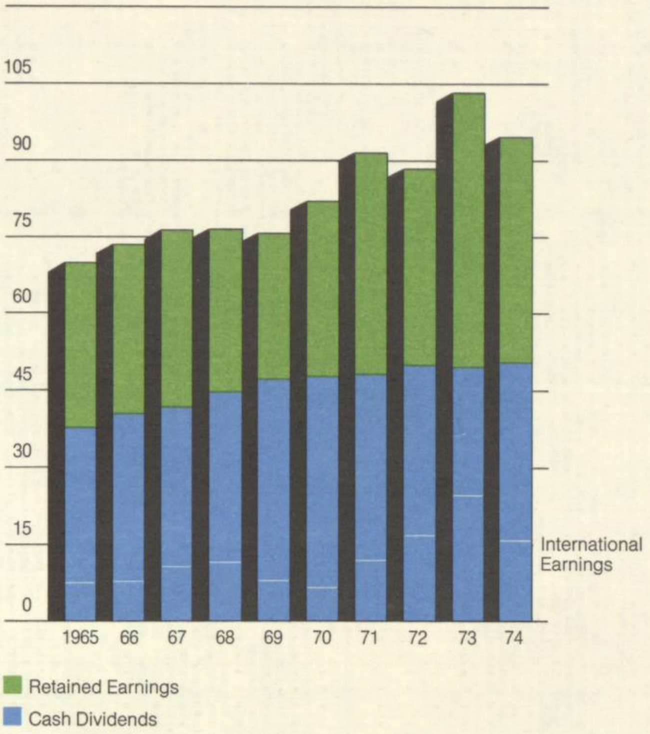
	1974	1973
1st Qtr.	$46 –$37½	$50⅜–$43⅞
2nd Qtr.	$47⅞–$35	$49¾–$42½
3rd Qtr.	$41 –$26⅞	$48⅛–$40
4th Qtr.	$36½–$27¼	$47¾–$35¼

Product and Operating Costs

The cost of our products, including raw materials, packaging and processing expenses, was 81.6 percent of sales in 1974, as compared with 78.5 percent in 1973 and 76.9 percent in 1972. Rapidly increasing costs of raw agricultural materials occurred during these periods, which were only partially offset by increased selling prices. Delivery, sales and administrative expenses were 13.7 percent, 15.8 percent and 16.9

Ten Year Earnings and Dividends

Millions of Dollars



percent of sales in 1974, 1973 and 1972, respectively (1973 and 1972 restated to exclude state and local taxes on income). Although dollar amounts of such expenses increased during these periods due to increased sales volumes, wage rates and other expenses, the percentage relationship to sales improved. The cost of advertising was 2.0 percent of sales in 1974, 2.4 percent in 1973 and 2.5 percent in 1972.

Interest

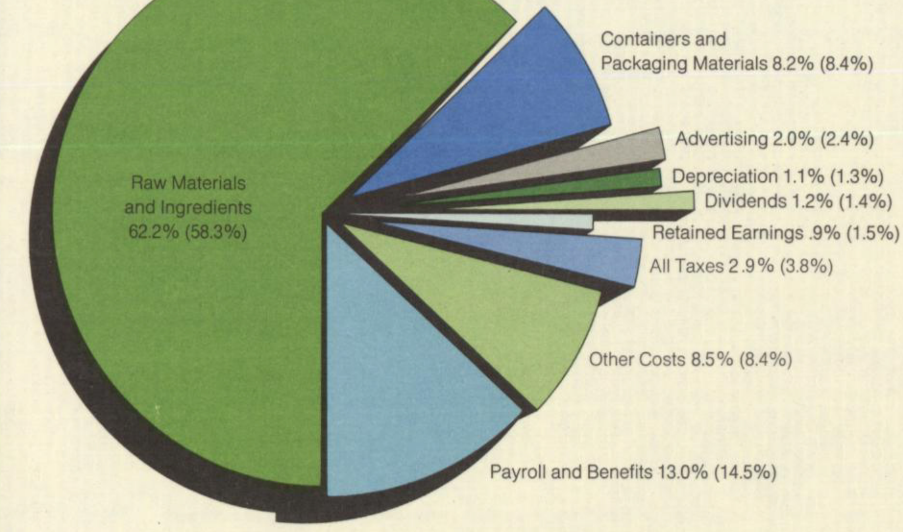
Additional working capital necessary to carry higher inventories and increased customer accounts, and greater capital expenditures coupled with higher interest rates, resulted in interest charges of $39,281,000 in 1974, an increase of $22,324,000 over 1973, which was $5,128,000 over 1972 primarily for the same reasons.

Translation of Foreign Currencies

During 1974, international currency exchange rates fluctuated to reflect changes in world economic and political conditions. Translation, at these floating rates, resulted in a loss of $3,144,000, the principal reason being the devaluation of the Australian dollar. Beginning in 1974, the Company deferred exchange gains or losses resulting from the translation of the 7½ percent Deutsche Mark Convertible Bonds. Such amounts are included in property values of the new Belgian plant, since the proceeds of the bond issue have been designated for this purpose. See also the comments on "Translation of Foreign Currencies" in the Notes to Consolidated Financial Statements.

Gains (Losses) Thousands of Dollars	Worldwide Total	U.S. and Canada	International other than Canada
Before Taxes:			
Translation of Income Statements	$ 616	$ 497	$ 119
Translation of Balance Sheets	(3,460)	239	(3,699)
Total	$(2,844)	$ 736	$(3,580)
Taxes:			
Translation of Income Statements	$ 279	$ 229	$ 50
Translation of Balance Sheets	21	21	—
Total	$ 300	$ 250	$ 50
After Taxes:			
Translation of Income Statements	$ 337	$ 268	$ 69
Translation of Balance Sheets	(3,481)	218	(3,699)
Total	$(3,144)	$ 486	$(3,630)

How the 1974 (1973) Sales Dollars Were Divided



Capital Expenditures

In 1974, capital expenditures were $94.2 million. Of this amount, $58.6 million was for United States facilities, mainly for the production of processed foods and manufactured dairy and non-food products; $4.1 million was expended in Canada, principally for processed foods and manufactured dairy products; $31.5 million was in the International Division, the largest portion for the new Namur, Belgium plant. Capital expenditures of approximately $105 million are anticipated in 1975. Depreciation charges were $49.1 million in 1974, and are estimated to be $54 million for 1975.

Legal Matters

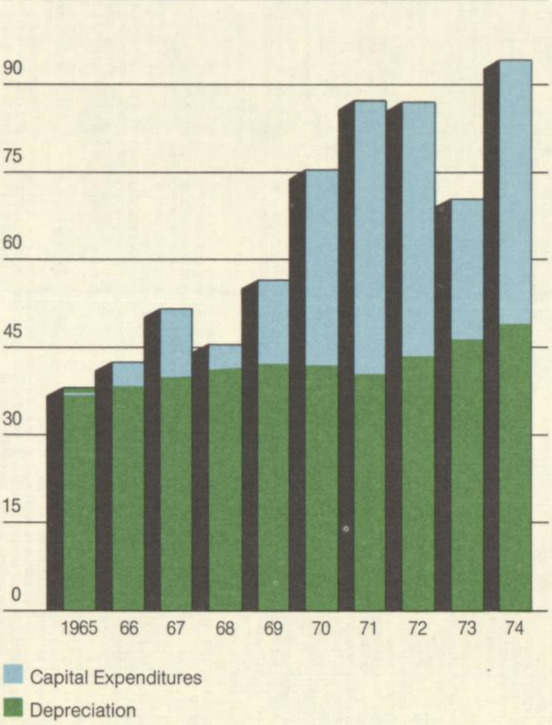
In January 1975, the Federal Trade Commission provisionally accepted a settlement of the proceeding (mentioned in the 1973 Annual Report) involving Kraftco's sale of its New York City milk business to Deltown Foods. Under the settlement, among other things, Deltown must dispose of some of the acquired assets and the license agreement under which Deltown is permitted to use certain of the Company's trademarks must be terminated by March 1976. The settlement is expected to become final in March 1975.

Several governmental agencies have requested information from the Company in connection with investigations being conducted by them. In one such investigation, the Company has supplied, over an extended period of time, a considerable amount of information in response to requests by the Federal Trade Commission relating primarily to cheese and other products sold in dairy cases of retail grocery stores and to the long-standing distribution arrangement under which refrigerated dough products manufactured by The Pillsbury Company are distributed by Kraft Foods Division.

See also the comments on Contingent Liabilities in the Notes to Consolidated Financial Statements.

Ten Year Capital Expenditures and Depreciation

Millions of Dollars



Consolidated Balance Sheets

Assets	**Dec. 28, 1974**	Dec. 29, 1973
Current Assets:		
Cash and temporary investments (See note)	**$ 36,240,036**	$ 33,986,615
Notes and accounts receivable, less allowance for losses of $7,652,758 in 1974 and $6,292,211 in 1973	**300,665,682**	260,977,871
Inventories (See note)	**793,044,897**	558,611,314
Total current assets	**$1,129,950,615**	$ 853,575,800
Property, Plant & Equipment, at cost:		
Land	**$ 26,284,662**	$ 26,571,664
Buildings	**340,650,246**	320,941,131
Machinery and equipment	**610,666,425**	566,494,739
	$ 977,601,333	$ 914,007,534
Less—Accumulated depreciation (See note)	**453,208,131**	434,395,285
	$ 524,393,202	$ 479,612,249
Other Assets:		
Miscellaneous investments and receivables	**$ 8,219,406**	$ 8,987,285
Prepaid and deferred items	**13,508,571**	13,177,941
Intangibles (See note)	**34,366,367**	35,544,016
	$ 56,094,344	$ 57,709,242
	$1,710,438,161	$1,390,897,291

(See Notes to Consolidated Financial Statements, pages 20-22).

Liabilities and Stockholders' Equity	**Dec. 28, 1974**	Dec. 29, 1973
Current Liabilities:		
Accounts payable and accrued liabilities	**$ 313,091,136**	$ 274,599,526
Short-term borrowings (See note)	**232,193,527**	100,966,622
Federal and foreign taxes on income (See note)	**31,280,274**	33,398,313
Current portion of long-term debt, less amounts provided for payment ($2,450,000 in 1974 and 1973)	**5,878,257**	1,894,120
Total current liabilities	**$ 582,443,194**	$ 410,858,581
Long-Term Debt (See note)	**$ 237,473,449**	$ 143,018,861
Other Liabilities:		
Deferred taxes on income (See note)	**$ 26,575,035**	$ 19,716,522
Minority interest in subsidiary	**2,429,572**	2,297,552
Miscellaneous	**11,505,746**	7,342,262
	$ 40,510,353	$ 29,356,336
Contingent Liabilities (See note)		
Stockholders' Equity (See note):		
Preferred stock, $1.00 par value—authorized 10,000,000 shares; Issued—None	**$ —**	$ —
Common stock, $2.50 par value—authorized 60,000,000 shares	**73,628,470**	73,628,220
Capital surplus	**49,909,677**	49,958,365
Retained earnings (at December 28, 1974, $379,670,000 restricted as to payment of dividends under indentures)	**799,705,516**	757,239,159
	$ 923,243,663	$ 880,825,744
Less—Treasury stock, at cost	**73,232,498**	73,162,231
Stockholders' equity	**$ 850,011,165**	$ 807,663,513
	$1,710,438,161	$1,390,897,291

(See Notes to Consolidated Financial Statements, pages 20-22).

Consolidated Statements of Income

Kraftco Corporation . . . and Subsidiaries

	52 Weeks Ended	
	Dec. 28, 1974	Dec. 29, 1973
Net Sales	**$4,471,427,424**	$3,601,534,678
Costs and expenses:		
Cost of products	**$3,647,582,085**	$2,827,057,566
Delivery, selling and administrative expense	**613,615,778**	569,930,926
Interest expense, net	**36,021,526**	12,936,658
Other income and charges, net	**(2,641,023)**	(6,261,147)
Total	**$4,294,578,366**	$3,403,664,003
Income before taxes	**$ 176,849,058**	$ 197,870,675
Provision for taxes on income (See note)	**82,222,000**	94,443,000
Net income	**$ 94,627,058**	$ 103,427,675
Earnings per common and common equivalent share	**$ 3.41**	$ 3.70
Earnings per common share assuming full conversion of the 7½ % DM Convertible Bonds due 1985	**$ 3.38**	$ 3.66
Average number of common and common equivalent shares	**27,741,192**	27,945,221

Consolidated Statements of Retained Earnings

	52 Weeks Ended	
	Dec. 28, 1974	Dec. 29, 1973
Balance at beginning of year	**$ 757,239,159**	$ 703,142,182
Net income	**94,627,058**	103,427,675
Dividends on common stock ($1.882 per share in 1974 and $1.768 in 1973)	**(52,160,701)**	(49,330,698)
Balance at end of year	**$ 799,705,516**	$ 757,239,159

(See Notes to Consolidated Financial Statements, pages 20-22).

Consolidated Statements of Changes in Financial Position

Kraftco Corporation . . . and Subsidiaries

	52 Weeks Ended	
	Dec. 28, 1974	Dec. 29, 1973
Working Capital Provided By:		
Operations—		
Net income	**$ 94,627,058**	$ 103,427,675
Items which do not use working capital—		
Depreciation	**49,149,528**	46,689,928
Deferred taxes on income	**6,858,513**	2,065,161
	$ 150,635,099	$ 152,182,764
Book value of properties sold	**8,678,926**	13,482,144
Proceeds from 8⅜% Sinking Fund Debentures	**100,000,000**	—
Proceeds from Eurodollar bank loans	**—**	3,817,111
Sale of common stock under options	**296,863**	2,312,779
Other, net	**7,243,795**	1,397,742
	$ 266,854,683	$ 173,192,540
Working Capital Used For:		
Dividends paid on common stock	**$ 52,160,701**	$ 49,330,698
Property, plant and equipment additions	**94,163,623**	70,373,816
Decrease in long-term debt	**10,852,912**	7,198,935
Treasury stock acquired	**423,889**	17,491,016
Purchase of a business, net of working capital acquired	**4,463,356**	11,980,230
	$ 162,064,481	$ 156,374,695
Increase in Working Capital	**$ 104,790,202**	$ 16,817,845
Changes in Working Capital Represented By:		
Cash and temporary investments	**$ 2,253,421**	$ (34,025,174)
Notes and accounts receivable, net	**39,687,811**	53,385,701
Inventories	**234,433,583**	94,342,227
Accounts payable and accrued liabilities	**(38,491,610)**	(43,198,274)
Short-term borrowings	**(131,226,905)**	(51,522,803)
Federal and foreign taxes on income	**2,118,039**	(4,424,013)
Current portion of long-term debt	**(3,984,137)**	2,260,181
Increase in Working Capital	**$ 104,790,202**	$ 16,817,845

(See Notes to Consolidated Financial Statements, pages 20-22).

Notes To Consolidated Financial Statements... December 28, 1974

Summary of Significant Accounting Policies

Principles of Consolidation — The consolidated financial statements include the accounts of all subsidiaries. The voting stock of all consolidated subsidiaries is wholly-owned, except for a minority interest in a Canadian subsidiary. The investment in 50% owned companies is recorded on the equity method. All significant inter-company items have been eliminated.

Translation of Foreign Currencies — In the consolidated balance sheets, assets and liabilities of international subsidiaries are translated at the exchange rates prevailing on the balance sheet dates, except for fixed assets and intangibles, which are generally translated at the rates of exchange prevailing at the time such assets were acquired. Income and expense accounts are translated at the average exchange rates in effect during the years, except for depreciation, which is translated at the exchange rates which were in effect when the respective assets were acquired. Exchange adjustments originating during the years are reflected in income except for a translation loss in 1974 of $1,412,000, net of tax benefits, related to the 7½ % DM Convertible Bonds; this amount has been included in the cost of the new Belgian plant presently under construction because the bonds originally were issued for the purpose of constructing this plant. Exchange adjustments in 1974 decreased net income by $3,144,000 compared to an increase of $1,464,000 in 1973.

Inventory Valuation — Inventories are stated at the lower of average cost or market.

Depreciation — Depreciation charges are generally computed on a straight-line basis over estimated useful lives of buildings and on a composite basis over estimated group lives of machinery and equipment.

Intangibles — Intangibles represent the excess of the purchase price paid over the net book values of the tangible assets of certain businesses acquired. For businesses acquired prior to November 1, 1970, intangibles amount to $25,418,552 and are not currently being amortized. Intangibles resulting from transactions after that date ($8,947,815, net of amortization at December 28, 1974) are being amortized over 40 years. Amortization for the year 1974 amounted to $232,797 and $172,176 for 1973.

Research and Development Costs — Research and development costs are charged to expense as incurred. These costs approximated $9,875,000 for 1974 and $8,950,000 for 1973.

Advertising — Advertising costs are charged to expense as incurred. These costs were $89,383,000 in 1974 and $88,023,000 in 1973.

Repairs and Maintenance — Expenditures for maintenance, repairs, renewals and betterments, which do not materially prolong the normal useful life of the asset, or are of a minor nature, are charged to expense; and expenditures for renewals and betterments of a relatively major nature that substantially prolong the normal useful life of the asset are charged to accumulated depreciation. These costs were $60,378,000 in 1974 and $52,632,000 in 1973.

Undistributed Earnings of International Subsidiaries — Federal income taxes are provided on the portion of each international subsidiary's earnings which is not deemed to be permanently invested in the subsidiary. At December 28, 1974, approximately $106,200,000 of such undistributed earnings were considered to be permanently invested. In the event such earnings were distributed, the Company would have available tax credits which would substantially offset any Federal income taxes due.

Taxes — Tax expense is made up of the following components:

	1974	1973
Income Taxes:		
Current—		
Federal	**$ 49,195,000**	$ 62,222,000
Foreign	**18,614,000**	21,509,000
State and Local	**7,555,000**	8,647,000
Deferred	**6,858,000**	2,065,000
	$ 82,222,000	$ 94,443,000
Other State and Local Taxes (U.S.)	**11,331,000**	11,368,000
Payroll Taxes	**22,136,000**	20,333,000
Other Taxes	**15,161,000**	12,347,000
	$130,850,000	$138,491,000

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The source of these differences and the tax effect was as follows:

	1974	1973
Excess of tax over book depreciation	**$ 6,858,000**	$ 4,849,000
Exchange adjustment related to Convertible Bonds	**—**	(2,784,000)
	$ 6,858,000	$ 2,065,000

Beginning in 1974, state and local taxes on income are reported as part of provision for taxes on income. The 1973 provision has been restated to reflect this adjustment.

There are no significant items either individually or in the aggregate accounting for the difference between the basic U.S. Federal income tax rate of 48% and the effective rate for each period.

Investment tax credits are taken directly into income as a reduction of the provision for Federal income taxes. Investment tax credits were $3,000,000 for 1974 and $2,500,000 for 1973.

It is not expected that there will be substantial cash outlays for tax payments in excess of tax expense for the next three years.

Employees' Stock Options

Under the 1970 Stock Option Plan, 52,540 and 199,770 shares of the Company's common stock at December 28, 1974 and December 29, 1973, respectively, were available for future grants to officers and other key employees. During 1974, options were granted to purchase 166,700 shares at $45.90 per share. Options to purchase 8,275 shares were exercised at prices ranging from $33.50 to $43.25 per share, and options for 70,740 shares (including 51,270 shares under the terminated 1965 Plan) lapsed or were canceled. At December 28, 1974, 1,316 employees (including officers) held options to purchase 435,689 shares at prices ranging from $33.50 to $46.15 per share. At that date, options for 185,864 shares were exercisable.

In October, 1974, the Board of Directors, subject to approval of the stockholders, adopted the 1974 Stock Option Plan, which provides for the granting of options for up to 750,000 common shares. Options were granted to purchase 306,495 shares at $28.25 per share, contingent upon surrender for cancellation of certain unexercised options earlier granted, and upon stockholder approval of the 1974 Plan.

Company Pension Plans

The Company and its subsidiaries have several pension plans. It is the Company's general policy to provide and fund current service costs and interest on unfunded prior service costs annually, and to amortize past service costs over 40 years. Vested benefits under the Company's noncontributory plan as of December 28, 1974, exceeded the market value of such fund by approximately $16,800,000.

Amendments to pension plans in 1974, providing for additional benefits to participants, increased annual pension costs by approximately $2,600,000. Pension plan amendments effective January 1, 1975 increasing benefits for presently retired employees and changing the 100% vesting period from 15 years to 10 years will increase annual pension expense by approximately $1,900,000. The Company also contributes to joint industry and union plans. Substantially all employees are covered under one or more of these plans. Total pension costs approximated $22,875,000 in 1974, and $19,650,000 in 1973.

Cash and Lines of Credit

At December 28, 1974, $2,872,000 was held in short-term bank deposits as a pledge for a bank loan and as a deposit for imports of international subsidiaries. The Company had unused lines of credit amounting to $337,700,000 at December 28, 1974. Bank balances of approximately $10,500,000 were maintained at banks to offset routine banking service charges and to support lines of credit.

Short-Term Borrowings

Short-term borrowings for the years ended December 28, 1974 and December 29, 1973 were as follows:

	Outstanding Balance	
	December 28, 1974	December 29, 1973
Commercial Paper—U.S.	**$ 8,000,000**	$ 32,735,000
Short-term Bank Loans—U.S.	**131,389,000**	—
Short-term Bank Loans—Int'l.	**92,804,527**	68,231,622
	$232,193,527	$100,966,622

Average interest rates at the end of 1974 were 9.4% for commercial paper, 8.9% for U.S. bank loans and 12.0% for international bank loans.

The maximum amount of outstanding aggregate short-term borrowings at any period end (12 periods) during the year ended December 28, 1974 was $297,308,000.

The average amount of outstanding aggregate short-term borrowings for the year ended December 28, 1974 was $251,797,000. The weighted average interest rate applicable thereto was 10.8%. The average borrowings and weighted average interest rates were determined using period-end borrowings and the interest rates applicable thereto.

Commercial paper is sold in the open market through a money market dealer. It is the Company's policy to maintain bank lines of credit at least equal to its outstanding commercial paper.

Long-Term Debt

All of the issues of debentures and debenture stock, other than the 7½% DM Convertible Bonds, have sinking fund or prepayment requirements. The amounts shown below as outstanding at December 28, 1974, exclude maturities and sinking fund requirements included in current liabilities, and $2,831,000 of debentures held in treasury in excess of current sinking fund requirements.

Kraftco Corporation	**December 28, 1974**	December 29, 1973
3⅛% Debentures due 1976	**$ 13,500,000**	$ 13,506,000
4⅜% Debentures due 1992	**24,419,000**	25,719,000
6⅞% Debentures due 1996	**50,000,000**	50,000,000
8⅜% Debentures due 2004	**100,000,000**	—
7½% DM Convertible Bonds due 1985 (Convertible into 649,350 shares of common stock of Kraftco Corporation)	**41,500,000**	37,000,000
2% Mortgage—Pennsylvania Industrial Development Authority due 1974/93	**4,478,686**	4,690,341
Mortgages payable of subsidiaries	**3,575,763**	3,878,409
Bank Loans (Eurodollars)	**—**	3,817,111
English Subsidiary		
Debenture Stock due 1975	**—**	4,408,000
	$237,473,449	$143,018,861

The aggregate amount of annual sinking fund and prepayment requirements for, and maturities of, long-term debt total $8,328,000 for 1975, $16,025,000 for 1976, $5,058,000 for 1977, $4,916,000 for 1978 and $4,796,000 for 1979.

Contingent Liabilities

There are no pending legal proceedings against the Company other than ordinary routine litigation (including several treble damage suits based on alleged violations of the antitrust laws) which is incidental to the Company's business and, based on the opinion of the Company's General Counsel, it is believed that the outcome of such litigation will not materially affect the Company's consolidated financial position or operations. See also the comments in "Legal Matters", page 15.

Profit Incentive Plans

Under year-to-year profit incentive compensation plans of the Company and certain of its divisions, key employees including officers of the Company, earned approximately $6,974,000 for 1974 and $8,158,000 for 1973. These plans, covering 2,697 and 2,821 employees for 1974 and 1973, respectively, did not include any Director of the Company who was not an officer.

Capital Transactions

	Number of Shares		Amount		
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Capital Surplus
December 30, 1972	29,433,907	1,388,211	$73,584,767	$57,526,073	$49,543,434
Treasury stock acquired	—	387,600	—	17,491,016	—
Used for—					
Management Incentive Compensation Plan	—	11	—	463	—
Stock Options exercised	17,381	44,155	43,453	1,854,395	414,931
December 29, 1973	29,451,288	1,731,645	$73,628,220	$73,162,231	$49,958,365
Treasury stock acquired	—	10,500	—	423,889	—
Used for—					
Management Incentive Compensation Plan	—	197	—	8,321	—
Stock Options exercised	100	8,175	250	345,301	48,688
December 28, 1974	29,451,388	1,733,773	$73,628,470	$73,232,498	$49,909,677

Auditors' Report

To the Board of Directors and Stockholders
of Kraftco Corporation:

We have examined the consolidated balance sheets of Kraftco Corporation (a Delaware corporation) and Subsidiaries as of December 28, 1974, and December 29, 1973, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. We also have examined the condensed statements of financial position and income of International Subsidiaries as of the above dates and periods. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Kraftco Corporation and Subsidiaries as of December 28, 1974 and December 29, 1973, and the results of their operations and changes in their financial position for the years then ended, and the accompanying condensed statements of International Subsidiaries summarize fairly the financial position and results of operations of such subsidiaries for the above dates and periods, all in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

69 West Washington Street
Chicago, Illinois 60602
February 20, 1975.

International Subsidiaries (other than Canadian)

Condensed Statements of Income

	52 Weeks Ended	
	Dec. 28, 1974	Dec. 29, 1973
Net Sales	**$ 682,462,598**	$ 571,455,829
Costs and expenses:		
Cost of products	**$ 543,450,748**	$ 442,338,404
Delivery, selling and administrative expense	**101,827,446**	91,453,690
Interest expense, net	**11,277,731**	7,709,873
Other income and charges, net	**(4,548,665)**	(4,645,631)
(Gain) loss on translation of currencies (balance sheet items) (Note A)	**3,699,513**	(2,327,045)
Total	**$ 655,706,773**	$ 534,529,291
Income before taxes (Note A)	**$ 26,755,825**	$ 36,926,538
Provision for taxes on income (Note B)	**11,162,968**	11,986,137
Net income (Note A)	**$ 15,592,857**	$ 24,940,401

Condensed Statements of Financial Position

	Dec. 28, 1974	Dec. 29, 1973
Cash and temporary investments	**$ 2,479,380**	$ 4,096,423
Notes and accounts receivable	**70,924,876**	52,066,545
Inventories	**150,114,143**	112,700,860
Total current assets	**$ 223,518,399**	$ 168,863,828
Current liabilities	**180,803,735**	144,969,391
Working capital	**$ 42,714,664**	$ 23,894,437
Property, plant and equipment, less accumulated depreciation	**100,044,538**	77,506,700
Other assets	**3,567,318**	3,365,762
	$ 146,326,520	$ 104,766,899
Less—Long-term debt and other liabilities	**10,504,555**	10,159,354
Net tangible assets	**$ 135,821,965**	$ 94,607,545

Notes:

A. For additional details on translation of currencies see pages 14 and 20.

B. The provision for income taxes included in the Condensed Statements of Income for International Subsidiaries (other than Canadian) is based upon foreign income tax rates applicable to such income. Any additional taxes expected to be payable in the United States on such income are included in the consolidated provision for income taxes.

The above accounts are included in the Consolidated Financial Statements.

Ten Year Summary

(Dollar amounts in thousands, except per share figures)

See Analysis of Summary on pages 12-15.

	1974	1973	1972
Summary of Operations:			
Net sales	**$4,471,427**	$3,601,535	$3,196,789
Costs and expenses	**4,294,578**	3,403,664	3,000,746
Income before taxes and extraordinary charge	**176,849**	197,871	196,043
Provision for taxes on income	**82,222**	94,443	95,408
Income before extraordinary charge	**94,627**	103,428	100,635
Extraordinary charge (net of taxes)	**—**	—	12,300*
Net income	**$ 94,627**	$ 103,428	$ 88,335
Dividends	**$ 52,161**	$ 49,331	$ 49,741
Per share of common stock:			
Net income	**$3.41**	$3.70	$3.13**
Net income—fully diluted	**$3.38**	$3.66	$3.10
Dividends	**$1.882**	$1.768	$1.768
Average number of common and common equivalent shares (in thousands)	**27,741**	27,945	28,190
Financial Position:			
Cash and temporary investments	**$ 36,240**	$ 33,987	$ 68,012
Notes and accounts receivable (net)	**300,666**	260,978	207,592
Inventories	**793,045**	558,611	464,269
Total current assets	**$1,129,951**	$ 853,576	$ 739,873
Total current liabilities	**582,443**	410,859	313,974
Working capital	**$ 547,508**	$ 442,717	$ 425,899
Property, plant and equipment (net)	**524,393**	479,612	459,475
Total assets	**1,710,438**	1,390,897	1,245,193
Long-term debt	**237,473**	143,019	135,466
Stockholders' equity	**850,011**	807,664	768,744
Per share of common stock	**$30.67**	$29.14	$27.41
Statistical Information:			
Capital expenditures	**$ 94,164**	$ 70,374	$ 87,139
Depreciation charged during the year	**49,150**	46,690	43,727
Total taxes—income, property, payroll and other	**130,850**	138,491	133,025***
Per share of common stock	**$4.72**	$4.96	$4.72***
Interest expense	**39,281**	16,957	11,829
Payroll	**498,153**	452,643	431,349
Average number of employees	**50,410**	48,909	48,948
Number of stockholders at year end	**66,320**	67,556	69,999
Number of shares of common stock outstanding at year end (in thousands)	**27,718**	27,720	28,046

*Extraordinary charge before tax benefit was $22,500,000.

**Income before extraordinary charge was $3.57 per share for 1972.

***Before tax benefits on extraordinary charge.

Income before taxes for all years has been restated to reflect state and local income taxes as part of the provision for taxes on income. Per share figures for 1965 have been adjusted to reflect the two-for-one stock split in 1966.

1971	1970	1969	1968	1967	1966	1965
$2,959,636	$2,751,129	$2,580,905	$2,428,106	$2,318,587	$2,251,725	$2,017,280
2,772,838	2,581,104	2,419,206	2,271,646	2,174,619	2,112,694	1,884,844
186,798	170,025	161,699	156,460	143,968	139,031	132,436
95,451	88,019	86,074	80,298	67,848	65,570	62,534
91,347	82,006	75,625	76,162	76,120	73,461	69,902
—	—	—	—	—	—	—
$ 91,347	$ 82,006	$ 75,625	$ 76,162	$ 76,120	$ 73,461	$ 69,902
$ 47,642	$ 47,507	$ 47,077	$ 44,886	$ 41,641	$ 40,413	$ 37,664
$3.25	$2.93	$2.69	$2.67	$2.65	$2.55	$2.41
$3.21	$2.92	$2.69	$2.67	$2.65	$2.55	$2.41
$1.70	$1.70	$1.675	$1.575	$1.45	$1.40	$1.30
28,094	27,978	28,111	28,497	28,718	28,861	28,936
$ 84,990	$ 51,653	$ 55,511	$ 92,913	$ 84,701	$ 69,466	$ 117,082
192,727	184,773	178,573	159,044	140,469	134,830	121,815
410,872	363,030	341,083	310,453	310,831	310,832	250,928
$ 688,589	$ 599,456	$ 575,167	$ 562,410	$ 536,001	$ 515,128	$ 489,825
267,270	241,027	249,308	202,750	190,449	189,524	180,824
$ 421,319	$ 358,429	$ 325,859	$ 359,660	$ 345,552	$ 325,604	$ 309,001
430,326	389,037	359,899	346,691	343,650	334,347	330,866
1,163,791	1,031,365	977,684	948,145	915,344	884,518	852,652
140,325	82,875	57,377	87,728	85,145	87,732	89,322
732,391	685,055	649,119	638,697	622,280	592,680	566,239
$26.10	$24.50	$23.25	$22.41	$21.66	$20.58	$19.56
$ 87,356	$ 75,526	$ 56,511	$ 45,799	$ 51,600	$ 42,481	$ 37,767
40,733	42,029	42,305	41,206	39,980	38,481	38,222
129,009	118,438	114,096	105,876	92,425	89,072	82,636
$4.59	$4.23	$4.06	$3.71	$3.21	$3.09	$2.85
9,777	7,589	5,436	4,865	4,397	4,471	4,157
392,997	368,038	346,973	323,257	309,905	301,407	280,983
48,091	48,179	48,160	47,007	47,060	46,525	45,157
71,461	71,538	71,584	71,702	72,352	71,240	68,762
28,064	27,965	27,921	28,339	28,672	28,801	28,936

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New York (principal market), Midwest, Pacific, Montreal, Toronto, *Adelaide, *Brisbane, *Hobart, *Melbourne, *Perth, *Sydney, London, Brussels, Antwerp, Frankfurt/Main, Basel, Bern, Geneva, Lausanne, Zurich. U.S. Trading Symbol: KRA.

**For shares represented by Australian certificates only.*

Auditors

Arthur Andersen & Co.

Corporate Headquarters

Kraftco Corporation
Kraftco Court
Glenview, Illinois 60025
(312) 998-2000

Principal Divisions and Operations

Kraft Foods Division, Chicago, has been an innovator of important advances with processed, packaged foods, particularly processed cheese and salad dressings. Among these are *Velveeta,* the first successfully processed, packaged cheese spread with good keeping quality and uniformity of flavor and texture, and *Miracle Whip* Salad Dressing. Well-known for its line of fine natural cheeses, Kraft Foods has steadily diversified its product lines since 1903 to include a wide range of foods such as margarine, confections, dry dinner mixes, barbecue sauces, jellies and preserves, cooking oil, citrus juices and fruit salads. In addition to these products sold in retail outlets throughout the United States, Kraft does an extensive business with members of the food service industry including restaurants, hospitals, schools and the military. Kraft also provides many industrial food products used as ingredients by other food manufacturers and a line of animal feed products. Kraft Foods Limited, a Canadian subsidiary of Kraftco which reports to the Kraft Foods Division, manufactures and distributes processed food products and manufactured dairy products under substantially the same trademarks used in the United States. Kraft Foods Limited supervises the operations of Vancouver Fancy Meats Co. Ltd., another Kraftco Canadian subsidiary, which manufactures and distributes specialty meat products.

Sealtest Foods Division, Philadelphia, is a consolidation of the Company's many milk and ice cream operations. Over the years, Sealtest has become a major processor of dairy foods, distributing an extensive product line including ice cream, fluid milk, cream, cottage cheese, yogurt and milk by-products, fruit juices and flavored drinks. Sealtest's distribution area extends chiefly from the Atlantic Coast to the Mississippi. Many products are marketed under the widely advertised *Sealtest* brand. All Natural ice cream and yogurt are sold under the long-established *Breyers* trademark. A highly successful line of lowfat milk, ice milk and dairy specialty products is marketed under the *Light n' Lively* trademark. In addition, Kraftco's Canadian subsidiary, Dominion Dairies Limited, reports to the Sealtest Foods Division. Dominion produces and distributes fluid milk products, ice cream and frozen desserts and various manufactured dairy products in the provinces of Ontario and Quebec, principally under the trademark *Sealtest.*

Breakstone Sugar Creek Foods Division, New York City, is an example of how marketing effectiveness can be strengthened by consolidating two operations. Breakstone's high-quality cultured milk products: sour cream, cottage cheese, yogurt, cream cheese and others are marketed under the *Breakstone, Temp-Tee, Swiss Parfait* and *Stay 'n Shape* brands. These products reach consumers throughout the Eastern Seaboard of the United States, Puerto Rico and in the Fort Worth, Dallas, Houston and Indianapolis market areas. Sugar Creek products include butter, powdered milk, ice cream mixes and flavor bases for soft drinks and syrups. Market areas are principally in the Midwest and Southwest.

Kraftco International Division, Glenview, is comprised of the Company's subsidiaries engaged in food processing and distribution outside of the United States and Canada. Operations are located in Australia, Belgium, Denmark, Italy, Mexico, New Zealand, Panama, Philippines, Republic of Ireland, Spain, Sweden, United Kingdom, Venezuela and West Germany. Processed food products and manufactured dairy products are marketed under the *Kraft* trademark in more than 135 countries. The MK Cheese Co., Ltd., jointly owned by Kraftco and Morinaga Milk Industry Co., Ltd., produces cheese products in Japan.

Kra-Pak Division, Glenview, Kraftco's industrial division, is comprised of four operations principally engaged in the businesses of edible oil refining, specialty chemicals and packaging materials. HumKo Products, Memphis, refines and manufactures a variety of vegetable oils, shortenings and coffee whiteners and serves the food manufacturing, retail grocery and food service industries in the United States, Canada, the Middle East and the West Indies. HumKo Sheffield Chemical, Memphis, produces fatty acids, dimer acids, amides, amines, glycerine, esters and other special chemicals that are used by many industries throughout the United States and Puerto Rico and in various foreign markets. Metro Containers, Lyndhurst, N. J., manufactures glass containers for use in the food, beverage, drug, chemical, cosmetic and other industries in the United States. Universal Packaging, Bow, N. H., manufactures paper containers and flexible packaging materials used by the food industry in the United States, Canada and the European Economic Community. Universal Packaging also supervises Kraftco's printing operations. Overseas operations engaged in edible oil refining, chemicals and packaging in Manchester, England, and Baudour, Belgium, report to the Kra-Pak Division.

Aluminum Specialty Company, Manitowoc, Wis., was acquired by Kraftco February 12, 1974 and operates as a subsidiary. Production facilities are maintained at five Wisconsin locations: Burlington, Chilton, Manitowoc, Menomonee Falls and Seymour. Product lines include aluminum cookware and bakeware, small electric appliances, roller skates, metal and plastic toys and metal and plastic components for use by other manufacturers. *Chilton* is the principal trademark under which products are distributed through national variety and chain stores, catalog houses, supermarkets and other United States retailers.

R & D supports Kraftco's divisions throughout the world by performing applied and fundamental research. Located in Glenview, the research center, one of the largest and best equipped facilities in the food industry, is staffed by chemists, nutritionists, other skilled scientists, engineers and technical aides. Here also, Corporate Marketing Research specialists identify consumer needs and wants as a means of guiding new product development. Additionally, R & D operates a research farm in Danville, Ill., where livestock feeding experiments are conducted. Kraftco's research and development effort is concerned with developing new products and packaging, improving established products and the economics of production and finding uses for by-products. R & D also provides guidance and assistance in environmental protection and maintains a close liaison with government and university laboratories.

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Note: In this report the use of italics indicates some of the many trademarks of Kraftco Corporation. The word Kraftco and the symbol Ⓚ are also trademarks of Kraftco Corporation.